

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 NEA-14 ISO-00 IO-14 FEA-02 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 DRC-01

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R 081202Z JUN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1094

INFO AMEMBASSY BRUSSELS

USMISSION OECD PARIS

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY BONN

AMEMBASSY TOKYO

AMEMBASSY DUBLIN

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY JIDDA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 07220

E.O. 11652: XGDS-1

TAGS: ENRG

SUBJECT: ECG AD HOC GROUP ON INTERNATIONAL OIL MARKET

1. EDUCATION OTHER DELEGATIONS ON PROSPECTS FOR OIL
MARKET DURING NEXT DECADE CONTINUED IN SECOND MEETING
JUNE 6 AND 7 WITH OTHER DELEGATIONS CONTINUING TO COME
AROUND TO US POSITIONS AS REFLECTED AGREED SUBSTANTIVE
REPORT TO ECG (SEPTTEL). MOST NOTABLE GENERAL AGREEMENT
WAS THAT OIL PRICES WILL FALL SUBSTANTIALLY IN REAL TERMS
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BEFORE 1985 AND THAT OPEC WILL NOT BE ABLE TO AVOID SUCH

REDUCTION IF PRICES NOW CONTINUE HIGH.

2. ONLY MAJOR DISAGREEMENT WAS ON PROSPECTS FOR PRICES IN SHORT-TERM (1974). OTHER DELS AGREED WITH US AND OECD ESTIMATES THAT THERE WOULD BE SMALL SURPLUS AVAILABLE SUPPLY OVER FINAL DEMAND. BUT FOLLOWING UK LEADERSHIP ALL OTHER DELS ARGUED THAT ONE OR ANOTHER PRODUCER WILL REDUCE PRODUCTION BY MODEST AMOUNTS NECESSARY TO PRESERVE PRESENT PRICE LEVEL. ALL OTHER DELS PREPARED END PARA 6 OF AGREED TEXT WITH FOLLOWING TWO SENTENCES. IN SHORT-TERM PRICES ARE UNLIKELY TO FALL IN MONEY TERMS. SOME PRODUCERS MIGHT EVEN TAKE STEPS ON PARTICIPATION PROPORTIONS AND OTHER FACTORS WHICH WOULD RESULT IN INCREASED PRICES IN REAL TERMS. USDEL POINTED OUT THIS WOULD AMOUNT TO ASSESSMENT THAT SAUDIS WILL NOT BE SUCCESSFUL IN THEIR ATTEMPT LOWER PRICES. USDEL THEN SUGGESTED NO PRICE CONCLUSION IN REPORT PENDING KNOWLEDGE OF WHAT, IF ANYTHING, OPEC DOES IN QUITO WITH CHAIRMAN (COOPER-US) MAKING APPROPRIATE ORAL REPORT TO ECG.

3. INVENTORY DISCUSSION PARTICULARLY REVEALING OF EXTENT INVENTORY BUILDUP IN 1974. ALL MAJOR ECG IMPORTERS EXCEPT FRG REPORTED THAT THEIR COMMERCIAL STOCKS AT OR NEAR CAPACITY LEVELS AND THAT NATIONAL SECURITY STOCKPILES LARGELY REBUILT. JAPANESE REPORTED THEIR INVENTORIES SHOULD REACH 60 DAYS, WHICH ABOUT FULL CAPACITY, IN AUGUST.

4. ALL DELS FOUND OECD CONCLUSION THAT AT CURRENT PRICE LEVELS THERE WOULD BE PEAK IN OECD IMPORTS OF OIL IN 1977-78 BEFORE DEMAND IN 1980 FALLS BELOW 1973 LEVELS MAJOR NEW PIECE OF ANALYSIS. SEVERAL DELEGATIONS STRESSED SENSITIVITY THIS AND OTHER OECD FINDINGS TO GDP ASSUMPTIONS, NOTING OECD STILL USING GDP GROWTH ESTIMATES PREPARED COUPLE YEARS AGO. USDEL (BUSHNELL) POINTED OUT THAT TRANSFER REAL RESOURCES FROM OECD TO OPEC COUNTRIES IMPLIED BY CURRENT PRICE LEVELS COULD REDUCE GDP GROWTH RATES IN OECD UNLESS MEANS FOUND FOCUS VIRTUALLY ALL INCREASED PRICES ON CONSUMPTION INSTEAD SAVING AND INVESTMENT.

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 07220

5. SEVERAL DELEGATIONS INCLUDING US, UK AND CANADA EM-
PHASIZED WHAT HAS NOW BECOME KNOWN IN ECG AS IRISH DI-
LEMMA OR VICIOUS CIRCLE (OR BY UK AS CATCH 23). THIS
EFFECT IS THAT, IF OECD INVESTORS THINK ENERGY PRICES
WILL CONTINUE HIGH, THEY WILL MAKE INVESTMENTS IN NON-
OPEC PRODUCTION AND IN CONSERVATION WHICH WILL RESULT IN
REDUCING DEMAND FOR OPEC OIL AND THUS MUCH LOWER OIL
PRICES. BUT, IF OECD INVESTORS THINK ENERGY PRICES ARE
GOING TO FALL SUBSTANTIALY, THEY WILL NOT MAKE THESE
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PRODUCTION AND CONSERVATION INVESTMENTS AND OIL PRICES
WILL THEN STAY RELATIVELY HIGH.

6. USDEL DEXCRIBED US ANALYSIS OF WEALTH MAXIMIZING
PRICING POLICIES ASSUMING OPEC OR SOME SUBGROUP THEREOF
WERE OPERATING AS EFFECTIVE CARTEL. THERE WAS CONSIDER-
ABLE INTEREST IN CONCLUSION THAT LONG-TERM WEALTH MAXI-
MIZING PRICE WOULD BE IN \$2 TO \$6 RANGE. UK SUPPORTED
TECHNICAL CORRECTNESS US WORK BUT ARGUED THAT POLITICAL
COMMITMENT PRODUCERS TO AT LEAST PRESENT PRICE LEVELS
WILL MAKE IT IMPOSSIBLE FOR THEM TO CUT PRICES FOR SOME
TIME EVEN IF THEY CONCLUDE SUCH HIGH PRICES ARE NOT IN
THEIR INTEREST.

7. ALL DELEGATIONS EXPRESS THANKS FOR US PAPERS, PAR-
TICULARLY THAT ON OPEC. THERE NO SUBSTANTIAL DISAGREE-
MENT WITH US PAPERS.

8. OVERALL ATMOSPHERE EXCELLENT. MOST DELS CONTINUE
HAVE MENTAL SET THAT OPEC IS VERY MUCH IN DRIVER'S SEAT
IN SHORT-RUN WHILE THEIR GOVERNMENTS HAVE NOTHING BUT
FRUSTRATIONS IN TRYING LIMIT DEMAND FOR OIL. HOWEVER,
OPTIMISM BEGINNING GROW ABOUT 1980-85 SITUATION AS US
AND OECD WORK GAINING GREATER ACCEPTANCE.

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